

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Village of Lawton

Van Buren County, Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended February 28, 2006

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INDEPENDENT AUDITORS' REPORT

To the Members of the Village Council
Village of Lawton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Lawton, Michigan, as of February 28, 2006, and for the year then ended, which collectively comprise the Village of Lawton, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Lawton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Lawton, Michigan, as of February 28, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedules listed in the contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Lawton, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Members of the Village Council
Village of Lawton, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lawton, Michigan's basic financial statements. The accompanying supplementary data is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

July 11, 2006

Village of Lawton
STATEMENT OF NET ASSETS
February 28, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,210,883	\$ 1,004,357	\$ 2,215,240
Receivables, net	149,548	65,375	214,923
Inventory	-	30,693	30,693
Total current assets	1,360,431	1,100,425	2,460,856
Noncurrent assets - capital assets, net of accumulated depreciation	<u>1,135,361</u>	<u>2,763,342</u>	<u>3,898,703</u>
Total assets	<u>2,495,792</u>	<u>3,863,767</u>	<u>6,359,559</u>
LIABILITIES			
Current liabilities:			
Payables	2,945	25,912	28,857
Customer deposits	-	31,825	31,825
Current portion of long-term obligations	<u>-</u>	<u>85,000</u>	<u>85,000</u>
Total current liabilities	2,945	142,737	145,682
Noncurrent liabilities - long-term obligations	<u>-</u>	<u>1,330,000</u>	<u>1,330,000</u>
Total liabilities	<u>2,945</u>	<u>1,472,737</u>	<u>1,475,682</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,135,631	1,348,342	2,483,973
Restricted for:			
Public safety	9,289	-	9,289
Public works	452,782	-	452,782
Recreation and culture	84,562	-	84,562
Unrestricted	<u>810,583</u>	<u>1,042,688</u>	<u>1,853,271</u>
Total net assets	<u>\$ 2,492,847</u>	<u>\$ 2,391,030</u>	<u>\$ 4,883,877</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF ACTIVITIES
Year ended February 28, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u> <u>Capital grants and contributions</u>
Governmental activities:			
Legislative	\$ 8,479	\$ -	\$ -
General government	375,761	35,817	-
Public safety	270,265	4,352	2,735
Public works	186,939	5,912	183,730
Recreation and culture	145,430	18,316	41,443
Community and economic development	12,828	-	-
Total governmental activities	999,702	64,397	227,908
Business-type activities:			
Water and sewer	433,324	518,001	-
Total primary government	<u>\$ 1,433,026</u>	<u>\$ 582,398</u>	<u>\$ 227,908</u>

General revenues
Property taxes
State shared revenue
Franchise fees
Interest and rental income
Gain on sale of capital assets
Other

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (8,479)		\$ (8,479)
(339,944)		(339,944)
(263,178)		(263,178)
77,703		77,703
(85,671)		(85,671)
<u>(12,828)</u>		<u>(12,828)</u>
 <u>(632,397)</u>		 <u>(632,397)</u>
	<u>\$ 87,877</u>	<u>87,877</u>
 <u>(632,397)</u>	 <u>87,877</u>	 <u>(544,520)</u>
520,433	-	520,433
202,710	-	202,710
12,544	-	12,544
62,516	1,475	63,991
-	65,300	65,300
<u>6,996</u>	<u>-</u>	<u>6,996</u>
<u>805,199</u>	<u>66,775</u>	<u>871,974</u>
172,802	154,652	327,454
<u>2,320,045</u>	<u>2,236,378</u>	<u>4,556,423</u>
<u>\$ 2,492,847</u>	<u>\$ 2,391,030</u>	<u>\$ 4,883,877</u>

See notes to the financial statements

Village of Lawton
BALANCE SHEET - governmental funds
February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 589,036	\$ 313,248	\$ 114,410	\$ 83,068	\$ 1,099,762
Receivables (net)	<u>116,680</u>	<u>20,609</u>	<u>7,410</u>	<u>4,849</u>	<u>149,548</u>
Total assets	<u>\$ 705,716</u>	<u>\$ 333,857</u>	<u>\$ 121,820</u>	<u>\$ 87,917</u>	<u>\$ 1,249,310</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 50	\$ 2,895	\$ -	\$ -	\$ 2,945
Deferred revenue	<u>79,270</u>	<u>-</u>	<u>-</u>	<u>3,355</u>	<u>82,625</u>
Total liabilities	<u>79,320</u>	<u>2,895</u>	<u>-</u>	<u>3,355</u>	<u>85,570</u>
Fund balances:					
Reserved for:					
Criminal training programs	8,923	-	-	-	8,923
Drug enforcement programs	366	-	-	-	366
Unreserved, undesignated	<u>617,107</u>	<u>330,962</u>	<u>121,820</u>	<u>84,562</u>	<u>1,154,451</u>
Total fund balances	<u>626,396</u>	<u>330,962</u>	<u>121,820</u>	<u>84,562</u>	<u>1,163,740</u>
Total liabilities and fund balances	<u>\$ 705,716</u>	<u>\$ 333,857</u>	<u>\$ 121,820</u>	<u>\$ 87,917</u>	<u>\$ 1,249,310</u>
Total fund balance					\$ 1,163,740
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:					
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.					
					1,065,133
Certain assets used in <i>governmental activities</i> are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					
					82,625
An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net assets.					
					<u>181,349</u>
Net assets of <i>governmental activities</i> (page 5)					<u>\$ 2,492,847</u>

See notes to the financial statements

Village of Lawton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Total governmental funds</u>
REVENUES					
Taxes	\$ 482,966	\$ -	\$ -	\$ 31,630	\$ 514,596
Licenses and permits	22,808	-	-	-	22,808
State grants	212,918	112,514	41,517	2,195	369,144
Contributions from local units	22,226	-	-	39,248	61,474
Charges for services	28,520	-	-	-	28,520
Fines and forfeitures	2,174	-	-	18,316	20,490
Interest and rentals	49,581	7,632	3,205	2,098	62,516
Other	2,983	75,000	-	4,014	81,997
Total revenues	<u>824,176</u>	<u>195,146</u>	<u>44,722</u>	<u>97,501</u>	<u>1,161,545</u>
EXPENDITURES					
Legislative	8,479	-	-	-	8,479
General government	367,035	-	-	-	367,035
Public safety	270,869	-	-	-	270,869
Public works	94,336	247,655	61,016	-	403,007
Community and economic development	12,828	-	-	-	12,828
Recreation and culture	23,112	-	-	116,828	139,940
Total expenditures	<u>776,659</u>	<u>247,655</u>	<u>61,016</u>	<u>116,828</u>	<u>1,202,158</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>47,517</u>	<u>(52,509)</u>	<u>(16,294)</u>	<u>(19,327)</u>	<u>(40,613)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in from other funds	-	-	20,000	-	20,000
Transfers out to other funds	(20,000)	-	-	-	(20,000)
Total other financing sources (uses)	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>27,517</u>	<u>(52,509)</u>	<u>3,706</u>	<u>(19,327)</u>	<u>(40,613)</u>
FUND BALANCES - BEGINNING	<u>598,879</u>	<u>383,471</u>	<u>118,114</u>	<u>103,889</u>	<u>1,204,353</u>
FUND BALANCES - ENDING	<u>\$ 626,396</u>	<u>\$ 330,962</u>	<u>\$ 121,820</u>	<u>\$ 84,562</u>	<u>\$ 1,163,740</u>

See notes to the financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended February 28, 2006

Net change in fund balances - total governmental funds (page 8)	\$ (40,613)
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Amounts reported for *governmental activities* in the statement of activities (Page 6) are different because:

Capital assets:

Current year additions	230,066
Provisions for depreciation	(30,099)

Net change in deferred revenue	10,960
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Net income of the internal service fund is reported with <i>governmental activities</i> .	<u>2,488</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 172,802</u>
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See notes to the financial statements

Village of Lawton
STATEMENT OF NET ASSETS - proprietary funds
February 28, 2006

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
ASSETS		
Current assets:		
Cash	\$ 1,004,357	\$ 111,121
Receivables, net	65,375	-
Inventory	30,693	-
Total current assets	1,100,425	111,121
Noncurrent assets - Capital assets, net of accumulated depreciation	2,763,342	70,228
Total assets	3,863,767	181,349
LIABILITIES		
Current liabilities:		
Payables	25,912	-
Customer deposits	31,825	-
Current portion of long-term debt	85,000	-
Total current liabilities	142,737	-
Noncurrent liabilities - long-term obligations	1,330,000	-
Total liabilities	1,472,737	-
NET ASSETS		
Investment in capital assets, net of related debt	1,348,342	70,228
Unrestricted	1,042,688	111,121
Total net assets	\$ 2,391,030	\$ 181,349

See notes to the financial statements

Village of Lawton**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - proprietary funds***Year ended February 28, 2006*

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
OPERATING REVENUES		
Charges for services:		
Public utility fees	\$ 518,001	\$ -
Equipment rental	-	82,553
	<u>518,001</u>	<u>82,553</u>
Total operating revenues		
	<u>518,001</u>	<u>82,553</u>
OPERATING EXPENSES		
Personnel costs	84,213	24,500
Contracted services	113,704	900
Supplies	14,730	27,698
Utilities	63,583	-
Maintenance	18,513	2,156
Internal charges	13,508	1,800
Miscellaneous	10,373	7,265
Depreciation	82,706	17,785
	<u>401,330</u>	<u>82,104</u>
Total operating expenses		
	<u>401,330</u>	<u>82,104</u>
Operating income		
	<u>116,671</u>	<u>449</u>
NONOPERATING REVENUES (EXPENSES)		
Connection fees	3,200	-
Interest revenue	1,475	2,852
Gain (loss) on sale of capital assets	65,300	(812)
Interest expense	(31,994)	-
	<u>37,981</u>	<u>2,040</u>
Net nonoperating revenues		
	<u>37,981</u>	<u>2,040</u>
CHANGES IN NET ASSETS	154,652	2,489
NET ASSETS - BEGINNING	<u>2,236,378</u>	<u>178,860</u>
NET ASSETS - ENDING	<u>\$ 2,391,030</u>	<u>\$ 181,349</u>

See notes to the financial statements

Village of Lawton**STATEMENT OF CASH FLOWS - proprietary funds**

Year ended February 28, 2006

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 521,253	\$ 82,553
Payments to vendors and suppliers	(222,636)	(39,820)
Payments to employees	(84,213)	(24,500)
Net cash provided by operating activities	<u>214,404</u>	<u>18,233</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	3,200	-
Sale of fixed assets	70,000	1,660
Acquisition of capital assets	(220,616)	(28,570)
Principal payments on long-term debt	(85,000)	-
Interest payments on long-term debt	(32,794)	-
Net cash used in capital and related financing activities	<u>(265,210)</u>	<u>(26,910)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>1,475</u>	<u>2,852</u>
NET DECREASE IN CASH	<u>(49,331)</u>	<u>(5,825)</u>
CASH - BEGINNING	<u>1,053,688</u>	<u>116,946</u>
CASH - ENDING	<u>\$ 1,004,357</u>	<u>\$ 111,121</u>

See notes to the financial statements

Village of Lawton

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended February 28, 2006

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 116,671	\$ 448
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	82,706	17,785
Decrease in:		
Receivables, net	2,777	-
Inventory	688	-
Increase in:		
Payables	11,087	-
Customer deposits	475	-
	<u>214,404</u>	<u>18,233</u>
Net cash provided by operating activities	\$ <u>214,404</u>	\$ <u>18,233</u>

See notes to the financial statements

Village of Lawton
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Lawton, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present only the Village. There are no component units, entities for which the Village is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.
- The Local Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of local streets within the Village.
- The Library Fund accounts for the operations of a public library within the Village. Revenues are primarily derived from local unit contributions, penal fines, and property taxes.

The Village reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activities of the Village's water distribution system and sewage collection system and treatment plant.

Additionally, the Village reports the following fund type:

- The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible, and all are due within one year.

iii) Inventory of supplies:

Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$100 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning March 1, 2005. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	50 years

v) Compensated absences:

Vacation leave is earned in varying amounts depending upon years of service and is fully vested when earned. Vacation leave is accrued as a liability based on the vacation leave accumulated at the balance sheet date.

The Village accrues half the sick leave benefits earned by the employees as a vested amount. Sick leave is recorded as a liability based on half the sick leave accumulated at the balance sheet date. The Village does not accrue for the unused accumulated sick pay that is nonvested. Unrecorded sick pay at February 28, 2006, is \$26,768. Such accumulations are reduced to the maximum amount allowed as a termination payment, based on certain limitations.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

vi) Property tax revenue recognition:

The Village property tax is levied each July 1 on the assessed values as of December 31 of the prior year. Village property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

vii) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

NOTE 3 - CASH:

A reconciliation of cash, as presented in the accompanying financial statements, to the footnote is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Cash	\$ 1,210,883	\$ 1,004,357	\$ 2,215,240

State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At February 28, 2006, \$2,150,075 of the Village's bank balances of \$2,250,825 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At February 28, 2006, the Village's receivables were as follows:

	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental funds:				
General Fund	\$ 79,270	\$ 2,708	\$ 34,702	\$ 116,680
Major Street Fund	-	-	20,609	20,609
Local Street Fund	-	-	7,410	7,410
Library Fund	4,849	-	-	4,849
Totals	<u>\$ 84,119</u>	<u>\$ 2,708</u>	<u>\$ 62,721</u>	<u>\$ 149,548</u>
Proprietary funds:				
Water and Sewer Fund	<u>\$ -</u>	<u>\$ 65,375</u>	<u>\$ -</u>	<u>\$ 65,375</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended February 28, 2006, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 217,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,843</u>
Capital assets being depreciated:				
Vehicles	173,619	28,572	24,739	177,452
Land improvements	102,686	-	-	102,686
Furniture, fixtures, and equipment	470,763	12,892	-	483,655
Buildings and improvements	<u>811,377</u>	<u>217,174</u>	<u>-</u>	<u>1,028,551</u>
Subtotal	<u>1,558,445</u>	<u>258,638</u>	<u>24,739</u>	<u>1,792,344</u>
Less accumulated depreciation for:				
Vehicles	150,078	9,988	22,266	137,800
Land improvements	36,906	4,828	-	41,734
Furniture, fixtures, and equipment	410,677	17,490	-	428,167
Buildings and improvements	<u>251,547</u>	<u>15,578</u>	<u>-</u>	<u>267,125</u>
Subtotal	<u>849,208</u>	<u>47,884</u>	<u>22,266</u>	<u>874,826</u>
Total capital assets being depreciated, net	<u>709,237</u>	<u>210,754</u>	<u>2,473</u>	<u>917,518</u>
Governmental activities capital assets, net	<u>\$ 927,080</u>	<u>\$ 210,754</u>	<u>\$ 2,473</u>	<u>\$ 1,135,361</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated - land	\$ 205,700	\$ 38,375	\$ 4,700	\$ 239,375
Capital assets being depreciated:				
Collection and distribution system	3,578,863	180,810	-	3,759,673
Equipment	84,695	1,431	-	86,126
Subtotal	3,663,558	182,241	-	3,845,799
Less accumulated depreciation for:				
Collection and distribution system	1,160,328	80,176	-	1,240,504
Equipment	78,798	2,530	-	81,328
Subtotal	1,239,126	82,706	-	1,321,832
Total capital assets being depreciated, net	2,424,432	99,535	-	2,523,967
Business-type activities capital assets, net	\$ 2,630,132	\$ 137,910	\$ 4,700	\$ 2,763,342

Depreciation expense was charged to governmental activities as follows:

General government	\$ 11,982
Public safety	3,025
Public works	1,106
Recreation and culture	13,986
Depreciation on capital assets held by internal service fund	17,785
Total governmental activities	\$ 47,884

NOTE 6 - LONG-TERM DEBT:

At February 28, 2006, long-term liabilities are comprised of the following:

The Water and Sewer Fund has an outstanding balance of \$1,415,000 on the 1998 \$1,900,000, 2.25% Wastewater Treatment Improvement Project Revenue Bonds. The bonds are due in annual principal installments of \$85,000 to \$115,000, plus interest through April 2020.

Long-term liability activity for the year ended February 28, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Business-type activities:					
Sewer Fund 1998 Bonds	\$ 1,500,000	\$ -	\$ 85,000	\$ 1,415,000	\$ 85,000

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM DEBT (Continued):

At February 28, 2006, debt service requirements are as follows:

<u>Year ended</u> <u>February 28</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	85,000	30,882
2008	90,000	28,913
2009	90,000	26,888
2010	95,000	24,807
2015	500,000	91,013
Thereafter	<u>555,000</u>	<u>31,790</u>
Totals	<u>\$ 1,415,000</u>	<u>\$ 234,293</u>

All debt is secured by the full faith and credit of the Village.

NOTE 7 - TAX REVENUE:

Tax revenue is comprised of current property taxes (real and personal) levied during the year ended February 28, 2006, and the administrative fee charged during that period. The following information is presented regarding the taxes levied and administrative fees collected concerning a major taxpayer:

	<u>Total tax</u> <u>revenue</u>	<u>Major</u> <u>taxpayer</u>	<u>Taxpayer</u> <u>percentage</u>
Current property taxes	\$ 509,902	\$ 123,289	
Administrative fees	<u>4,694</u>	<u>1,233</u>	
	<u>\$ 514,596</u>	<u>\$ 124,522</u>	24%

NOTE 8 - PAYABLES:

At February 28, 2006, the Village's payables were as follows:

	<u>Accounts</u>	<u>Inter-</u> <u>governmental</u>	<u>Totals</u>
Governmental funds:			
General Fund	\$ 50	\$ -	\$ 50
Major Street Fund	<u>-</u>	<u>2,895</u>	<u>2,895</u>
Totals	<u>\$ 50</u>	<u>\$ 2,895</u>	<u>\$ 2,945</u>
Proprietary funds:			
Water and Sewer Fund	<u>\$ 25,912</u>	<u>\$ -</u>	<u>\$ 25,912</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - SEGMENT INFORMATION - ENTERPRISE FUND:

Segment information of the enterprise fund is provided as follows for the Water and Sewer Fund operations for the year ended February 28, 2006:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$ 270,579	\$ 247,422	\$ 518,001
Depreciation	34,751	47,955	82,706
Operating income	116,521	150	116,671
Capital contributions	-	3,200	3,200
Change in net assets	149,909	4,743	154,652
Fixed asset additions	200,713	19,903	220,616
Net working capital	521,688	436,000	957,688
Total assets	1,286,584	2,577,183	3,863,767
Long-term debt	-	1,330,000	1,330,000
Total net assets	1,258,060	1,132,970	2,391,030

A major commercial customer accounts for revenues of \$219,967, which represents 43% of total water and sewer revenues for the year ended February 28, 2006.

NOTE 10 - PENSION PLAN:

The Village sponsors a defined contribution plan for all full time employees. Employees are allowed to contribute amounts subject to IRS limitations. The Village makes a matching contribution (not to exceed 3% of covered payroll) for all personnel who contribute to the plan. For the year ended February 28, 2006, the Village and covered employees contributed \$20,715 and \$27,452, respectively to the plan.

The Village has no administrative or fiduciary responsibilities over the plan or plan assets. Accordingly, activity and balances of the plan are not included in these financial statements.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended February 28, 2006, is as follows:

Revenues	\$ 9,539
Expenses	<u>(10,518)</u>
Deficiency of revenues over expenses	<u>\$ (979)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended February 28, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 480,500	\$ 480,500	\$ 482,966	\$ 2,466
Licenses and permits	24,000	24,000	22,808	(1,192)
State grants	208,698	208,698	212,918	4,220
Contributions from local units	-	-	22,226	22,226
Charges for services	21,400	21,400	28,520	7,120
Fines and forfeitures	3,500	3,500	2,174	(1,326)
Interest and rentals	14,252	14,252	49,581	35,329
Other	6,650	2,650	2,983	333
Total revenues	<u>759,000</u>	<u>755,000</u>	<u>824,176</u>	<u>69,176</u>
EXPENDITURES				
Legislative - Village Council	<u>11,900</u>	<u>11,900</u>	<u>8,479</u>	<u>3,421</u>
General government:				
President	1,320	1,320	980	340
Clerk	61,000	61,000	54,788	6,212
Treasurer	5,400	5,400	5,320	80
Hall and grounds	23,400	23,400	20,710	2,690
Financial administration	93,000	93,000	71,415	21,585
Insurance and bonds	186,500	182,500	182,069	431
Cemetery	35,200	35,200	31,753	3,447
Total general government	<u>405,820</u>	<u>401,820</u>	<u>367,035</u>	<u>34,785</u>
Public safety:				
Police protection	289,700	289,700	263,545	26,155
Crossing guards	7,200	7,200	6,960	240
Civil forfeitures	2,360	2,360	364	1,996
Total public safety	<u>299,260</u>	<u>299,260</u>	<u>270,869</u>	<u>28,391</u>
Public works:				
Public works department	6,625	6,625	5,258	1,367
Sidewalks	39,100	39,100	27,801	11,299
Streets	76,700	76,700	61,277	15,423
Total public works	<u>122,425</u>	<u>122,425</u>	<u>94,336</u>	<u>28,089</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended February 28, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 19,300</u>	<u>\$ 19,300</u>	<u>\$ 12,828</u>	<u>\$ 6,472</u>
Recreation and cultural:				
Parks and recreation	25,100	25,100	19,603	5,497
Museum	300	300	-	300
Civic betterment	<u>6,500</u>	<u>6,500</u>	<u>3,509</u>	<u>2,991</u>
Total recreation and cultural	<u>31,900</u>	<u>31,900</u>	<u>23,112</u>	<u>8,788</u>
Total expenditures	<u>890,605</u>	<u>886,605</u>	<u>776,659</u>	<u>109,946</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(131,605)	(131,605)	47,517	179,122
OTHER USES OF FUNDS				
Transfer to Local Street Fund	<u>27,500</u>	<u>27,500</u>	<u>20,000</u>	<u>7,500</u>
NET CHANGES IN FUND BALANCES	(159,105)	(159,105)	27,517	186,622
FUND BALANCES - BEGINNING	<u>598,879</u>	<u>598,879</u>	<u>598,879</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 439,774</u>	<u>\$ 439,774</u>	<u>\$ 626,396</u>	<u>\$ 186,622</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended February 28, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 105,000	\$ 105,000	\$ 112,514	\$ 7,514
Federal grants	375,000	-	-	-
Interest	2,500	2,500	7,632	5,132
Contributions	75,000	75,000	75,000	-
Total revenues	<u>557,500</u>	<u>182,500</u>	<u>195,146</u>	<u>12,646</u>
EXPENDITURES				
Public works:				
Construction	655,300	235,300	220,242	15,058
Administration	3,865	3,865	3,762	103
Routine maintenance	18,200	18,200	14,647	3,553
Winter maintenance	14,235	14,235	9,004	5,231
Total expenditures	<u>691,600</u>	<u>271,600</u>	<u>247,655</u>	<u>23,945</u>
NET CHANGES IN FUND BALANCES	(134,100)	(89,100)	(52,509)	36,591
FUND BALANCES - BEGINNING	<u>383,471</u>	<u>383,471</u>	<u>383,471</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 249,371</u>	<u>\$ 294,371</u>	<u>\$ 330,962</u>	<u>\$ 36,591</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Local Street Fund**

Year ended February 28, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 40,000	\$ 40,000	\$ 41,517	\$ 1,517
Interest	<u>800</u>	<u>800</u>	<u>3,205</u>	<u>2,405</u>
Total revenues	<u>40,800</u>	<u>40,800</u>	<u>44,722</u>	<u>3,922</u>
EXPENDITURES				
Public works:				
Construction	55,000	55,000	38,767	16,233
Administration	3,400	3,400	3,315	85
Routine maintenance	15,000	15,000	11,030	3,970
Winter maintenance	<u>12,700</u>	<u>12,700</u>	<u>7,904</u>	<u>4,796</u>
Total expenditures	<u>86,100</u>	<u>86,100</u>	<u>61,016</u>	<u>25,084</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(45,300)	(45,300)	(16,294)	29,006
OTHER SOURCES OF FUNDS				
Transfer from General Fund	<u>27,500</u>	<u>27,500</u>	<u>20,000</u>	<u>(7,500)</u>
NET CHANGE IN FUND BALANCES	(17,800)	(17,800)	3,706	21,506
FUND BALANCES - BEGINNING	<u>118,114</u>	<u>118,114</u>	<u>118,114</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 100,314</u>	<u>\$ 100,314</u>	<u>\$ 121,820</u>	<u>\$ 21,506</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Library Fund**

Year ended February 28, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 31,200	\$ 31,200	\$ 31,630	\$ 430
State grants	2,800	2,800	2,195	(605)
Contributions from local units	63,500	63,500	39,248	(24,252)
Fines and forfeitures	18,300	18,300	18,316	16
Interest	800	800	2,098	1,298
Other	1,600	1,600	4,014	2,414
	<u>118,200</u>	<u>118,200</u>	<u>97,501</u>	<u>(20,699)</u>
EXPENDITURES				
Recreational and cultural				
Salaries and wages	56,000	56,000	53,442	2,558
Payroll taxes and fringe benefits	19,380	19,380	15,576	3,804
Office supplies	530	530	254	276
Operating supplies	3,100	3,100	1,650	1,450
Telephone	2,350	2,350	1,234	1,116
Electric	3,100	3,100	2,997	103
Heat	1,000	1,000	960	40
Custodial services	2,100	2,100	1,885	215
Repairs and maintenance	1,600	1,600	2,563	(963)
Building and equipment rental	1,140	1,140	1,120	20
Miscellaneous	1,000	1,000	826	174
Books, magazines, and periodicals	24,000	24,000	17,982	6,018
Audio and video cassettes	3,300	3,300	4,138	(838)
Memberships and dues	1,000	1,000	1,114	(114)
Education and training	600	600	504	96
Software	700	700	1,127	(427)
Capital outlay	9,500	9,500	9,456	44
	<u>130,400</u>	<u>130,400</u>	<u>116,828</u>	<u>13,572</u>
NET CHANGES IN FUND BALANCES	(12,200)	(12,200)	(19,327)	(34,271)
FUND BALANCES - BEGINNING	<u>103,889</u>	<u>103,889</u>	<u>103,889</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 91,689</u>	<u>\$ 91,689</u>	<u>\$ 84,562</u>	<u>\$ (34,271)</u>

SUPPLEMENTARY DATA

Village of Lawton**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS -****\$1,900,000 1998 Wastewater treatment improvement project bonds**

February 28, 2006

<i>Fiscal period</i>	<i>Interest requirement</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirement</i>
	<i>April 1</i>	<i>October 1</i>			
2007	\$ 15,919	\$ 14,963	04/01/07	\$ 85,000	\$ 115,882
2008	14,963	13,950	04/01/08	90,000	118,913
2009	13,950	12,938	04/01/09	90,000	116,888
2010	12,938	11,869	04/01/10	95,000	119,807
2011	11,869	10,800	04/01/11	95,000	117,669
2012	10,800	9,675	04/01/12	100,000	120,475
2013	9,675	8,550	04/01/13	100,000	118,225
2014	8,550	7,425	04/01/14	100,000	115,975
2015	7,425	6,244	04/01/15	105,000	118,669
2016	6,244	5,063	04/01/16	105,000	116,307
2017	5,063	3,828	04/01/17	110,000	118,891
2018	3,828	2,588	04/01/18	110,000	116,416
2019	2,588	1,294	04/01/19	115,000	118,882
2020	1,294	-	04/01/20	115,000	116,294
	<u>\$ 125,106</u>	<u>\$ 109,187</u>		<u>\$ 1,415,000</u>	<u>\$ 1,649,293</u>